Compliance Programs – Metrics Consideration

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Session Objectives

1. Outline variables impacting development of appropriate metrics for measuring compliance program effectiveness;

2. List common criteria for measuring ROI (return on investment) through appropriate metrics;

3. Collaborate with peers to develop at least one program metric and related tool(s) to measure achievement.
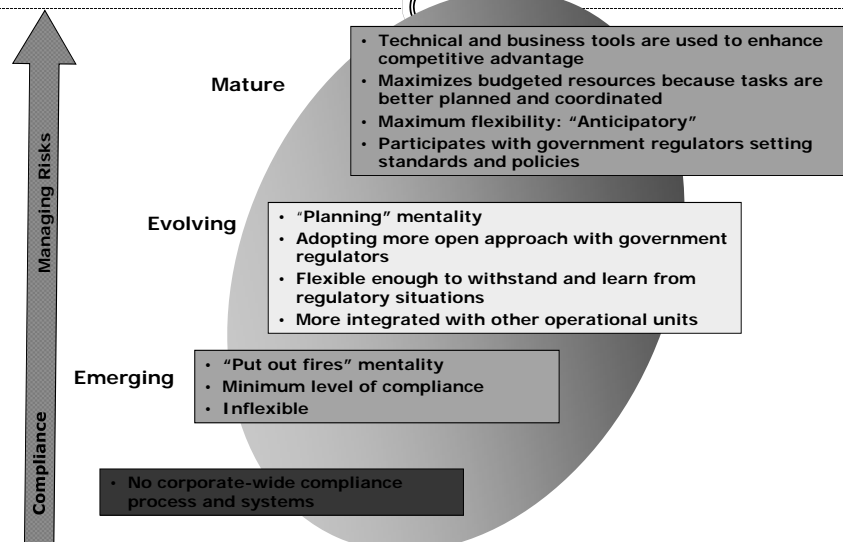
Definitions

Effectiveness

- "producing a decided, decisive, or desired effect . . . capable of producing a result."

- "the extent to which the outcomes of an activity achieve its stated objectives."

Metrics

- Measurements that depict an organization's completion of a specific goal or objective that may be one element of a larger outcome, e.g., implementation of a policy.

Compliance Program Maturity Determination: Tool in Determining Applicable Risks

Managing Risks ↑

Compliance

Mature
- Technical and business tools are used to enhance competitive advantage
- Maximizes budgeted resources because tasks are better planned and coordinated
- Maximum flexibility: "Anticipatory"
- Participates with government regulators setting standards and policies

Evolving
- "Planning" mentality
- Adopting more open approach with government regulators
- Flexible enough to withstand and learn from regulatory situations
- More integrated with other operational units

Emerging
- "Put out fires" mentality
- Minimum level of compliance
- Inflexible

- No corporate-wide compliance process and systems

Variables Impacting Development of Appropriate Metrics

- Access to data which can be objective and measureable
  - Integrity of data
  - Ability to do data forensics

- Organization's culture
  - Appetite and tolerance for risk

- Objective, measurable metrics – a 3rd party can identify what is being measured

- Program's maturity
  - Metrics evolve with program maturity
    - If still in reactive, design and implementation phases, focus will be on infrastructure and process related to that work

- Other?

Core Elements in Building an Effective Compliance Program

Program structure designed to meet the intent of the FSG's 7 elements

Structure

Risk assessments identify risks; Enforcement actions occur;

Process

Outcomes

Third party relationships are appropriate; Quality indicators improve.

Development of Process Metrics

- Consider variables
  - Challenges
  - Opportunities
  - Understand limitations

- "Design" measurements/Infrastructure

- Structural focus of metrics (vs. Substantive due to early nature of program processes)

Scenario

Compliance program was established in the past year. Develop metrics for this program.

Developing Outcome Indicators

- Program evolution has moved forward in maturity levels and beyond implementation.

- Risk tolerance is at acceptable level in organization to move beyond "crisis" and reaction...root cause trending and focus on resolution without repeated incidences

Developing Outcome Indicators

➢ **Outcome Indicators**
   1. Determining Appropriate Outcomes and Related Thresholds
      a. Identify and prioritize compliance risks based upon mission, risk exposure and resources to mitigate
      b. Differentiate between mandatory and voluntary compliance-related risks
         ➢ Licensing/Certification
         ➢ Medicare Conditions of Participation
         ➢ Reputation
         ➢ Financial
      ➢ Add Value?? ROI measurements
➢ **Capability for Data Analytics will be critical to success of indicator measurement**

Process of Risk Identification

Mission & Objectives	Risk Assessment	Prioritize and Plan	Audit and Monitoring Activities	Reporting on Risk Profile and Outcomes Measures
• Identify key high compliance risk areas relating to regulatory requirements • *What is your organization's vulnerability to risk occurring?*	• Prioritize Risks • Evaluate Implementation Plans • Compliance with Applicable Rules and Regulations • *What is currently being done to prevent, detect, correct, or escalate risk?* • Other data to consider, i.e.: HR, risk management, legal	• Management Controls • Identify process indicators that link to planned outcomes • *What further actions are required to cost effectively mitigate value at risk?*	• Best Practices/ Benchmarks • Assessment Checklists • Ongoing monitoring • Re-evaluating risk rankings • *How do we get reasonable assurance that existing mitigation is reliable and effective?* • Monitor risk profile	• Recommendations • Performance Assessment • *Reporting assurance that risk is mitigated – outcome measure*

Outcome Metrics can be developed for this process

Next Steps

- Review Identified Compliance Risks
- Determine Outcome Indicators (example)
  - Discrimination/EEO Issue:
    - Increased Sexual Harassment/Discrimination Claims
    - Non-compliance to mandatory education
    - Lack of enforcement
    - High cost of legal services and/or payouts
- Assign weight to outcomes measures
- Recalculate risk ranking
- Calculate "risk" for internal risk profile

Group Exercise – 15 minutes

1. Divide into groups
2. Document at least 3-5 compliance risk areas in your assigned FSG element which can provide a basis for a compliance program metric.
3. Develop the corresponding process and outcome indicators that would be measured to determine the effectiveness of your program
4. List at least 3 challenges and potential solutions to operationalizing your effectiveness review

Group Exercise - Measures

FSG Element	Desired Outcome for ROI	Metric

Group Exercise - 3 Challenges

Challenge to Development	Recommended Solutions

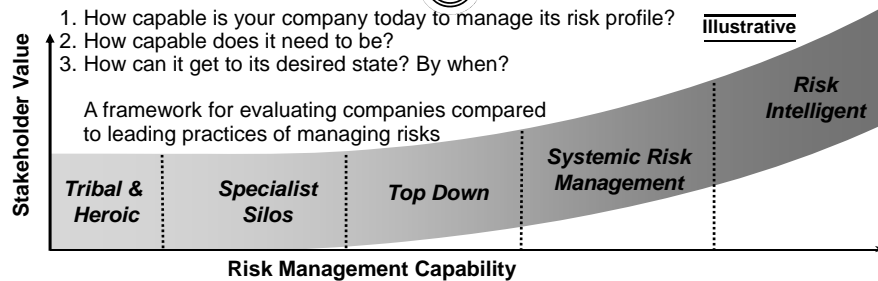# Group Presentations

10 minutes each

Evaluate your organization's Risk Intelligence
Has "compliance outcomes" made any difference?

1. How capable is your company today to manage its risk profile?
2. How capable does it need to be?
3. How can it get to its desired state? By when?

Illustrative

A framework for evaluating companies compared to leading practices of managing risks

Stakeholder Value

Risk Intelligent

Systemic Risk Management

Tribal & Heroic

Specialist Silos

Top Down

Risk Management Capability

Risk Intelligent
- Embedded in strategic planning, capital allocation, product development, etc.
- *Early-warning risk indicators*
- *Linkage to performance measurement/ incentives*
- Risk modeling/scenarios
- Industry benchmarking

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Summary

- Metrics should be developed according to the organization's maturity in compliance program and activities.

- Metrics should be reviewed regularly to assure applicability.

- Metrics help to demonstrate the "risk tolerance" of an organization.

- Metrics help to demonstrate effectiveness in process (i.e.: structural/design changes) and outcomes (i.e. behavioral changes).

- Overall, a quantifiable, objective measurement will assist in demonstrating the "return on investment" of a compliance program.

QUESTIONS

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